

**Shands Jacksonville
HealthCare, Inc. and
Subsidiaries**

**Consolidated Basic Financial Statements, Required
Supplementary Information and Supplemental
Consolidating Information
June 30, 2013 and 2012**

Shands Jacksonville HealthCare, Inc. and Subsidiaries

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June 30, 2013 and 2012

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Shands Jacksonville HealthCare, Inc. and Subsidiaries

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

This section of the Shands Jacksonville HealthCare, Inc. and Subsidiaries' ("SJH" or the "Company") annual financial report presents the Company's analysis of its financial performance as of June 30, 2013 and 2012, and for the fiscal years then ended. Please read this analysis in conjunction with the consolidated basic financial statements, which follow this section.

Introduction

Shands Jacksonville HealthCare, Inc., formerly known as Jacksonville Health Group, Inc., is a Florida not-for-profit corporation with direct or indirect legal control over numerous subsidiaries.

Shands Jacksonville Medical Center, Inc. ("SJMC"), formerly known as University Medical Center, Inc. ("UMC"), is a Florida not-for-profit corporation and the principal operating subsidiary of SJH. SJMC operates a teaching hospital located in Jacksonville, Florida, through a lease with the City of Jacksonville (the "City"). During 2013, SJMC began doing business as UF Health Jacksonville.

On September 30, 1999, Methodist Medical Center, Inc., Methodist Health System, Inc. and The Methodist Hospital Foundation, Inc. (collectively, "Methodist"), SJH, UMC and Shands Teaching Hospital and Clinics, Inc. ("Shands") completed an affiliation agreement (the "Affiliation") which allowed for the combination of the hospital operations of UMC and Methodist under SJMC. SJH became the sole member of both SJMC and Methodist.

The Affiliation was approved by the City and secured creditors of both UMC and Methodist. As a result of the Affiliation, the requisite corporate actions were taken on February 1, 2003 to designate Shands as the sole corporate member of SJH.

Effective September 8, 2010, the Board of Directors of Shands approved a motion to reorganize its corporate structure. Under the reorganization, Shands would no longer be the sole corporate member of the Company, but would continue as an affiliated entity under common control of the University of Florida. Effective September 27, 2010, the Board of Directors of the Company approved the motion for Shands to no longer be the sole corporate member of the Company. The Company continues to receive management and operational services from Shands. As a part of the reorganization, the Company delivered a promissory note to Shands in the amount of approximately \$42,276,000, payable over 20 years, in acknowledgement of historical investments in the Company.

The accompanying consolidated basic financial statements include the accounts of SJH, SJMC, Methodist and other subsidiaries of SJH as of and for the years ended June 30, 2013 and 2012. The "Company" in these consolidated basic financial statements refers to the consolidated operations of these entities. Significant transactions between these entities have been eliminated.

This section of the Company's consolidated basic financial statements presents analysis of the financial net position, the results of operations and cash flows for the fiscal years ended June 30, 2013 and 2012. Along with the information in this report, the notes to the consolidated basic financial statements should be used to provide additional information that is essential for a full understanding of the consolidated basic financial statements.

Overview of the Consolidated Basic Financial Statements

Along with management's discussion and analysis, the annual financial report includes the independent certified public accountants' report and the consolidated basic financial statements of the Company. The consolidated basic financial statements also include notes that explain in more detail some of the information in the consolidated basic financial statements. By referring to the accompanying notes to the consolidated basic financial statements, a broader understanding of issues impacting financial performance can be realized.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Management's Discussion and Analysis (Unaudited)
June 30, 2013 and 2012

June 30, 2013

Consolidated Basic Statements of Net Position

The consolidated basic statements of net position presents the financial position of the Company and includes all assets and liabilities of the Company. The Company's net position, or the difference between total assets and total liabilities, are one indicator of the current financial condition of the Company. Changes in net position are an indicator of whether the overall financial condition of the organization has improved or worsened over a period of time. Assets and liabilities are generally measured using current values, with the exception of capital assets, which are stated at historical cost less allowances for depreciation.

A summary of the Company's condensed consolidated basic statements of net position is presented below:

(in thousands of dollars)

	2013	2012
Cash and cash equivalents and short-term investments	\$ 89,350	\$ 107,857
Other current assets	106,482	86,984
Capital assets, net	170,987	179,426
Other noncurrent assets	66,372	42,974
Total assets	<u>\$ 433,191</u>	<u>\$ 417,241</u>
Current liabilities	\$ 109,269	\$ 108,695
Noncurrent liabilities	158,362	137,206
Total liabilities	<u>267,631</u>	<u>245,901</u>
Net position		
Net investment in capital assets	62,505	86,439
Restricted:		
Expendable	3,887	3,843
Unrestricted	99,168	81,058
Total net position	<u>165,560</u>	<u>171,340</u>
Total liabilities and net assets	<u>\$ 433,191</u>	<u>\$ 417,241</u>

Cash and cash equivalents and short-term investments decreased by approximately \$18.5 million, or 17.2%, since June 30, 2012. See the "Consolidated Basic Statements of Cash Flows" section below for further information regarding cash activity.

Other current assets increased by approximately \$19.5 million since June 30, 2012. Net patient accounts receivable increased approximately \$18.8 million largely as the result of implementing EPIC patient accounting software and the expected transition collection lag; prepaid expenses and other miscellaneous receivables increased approximately \$4.0 million primarily related to a \$1.9 million deposit and timing of receivable collections; due from city and state agencies decreased approximately \$1.2 million due to improved collection timing; inventories increased \$1.3 million and the sinking fund deposit decreased by approximately \$3.6 million when the related debt was refunded.

Capital assets, net, decreased approximately \$8.4 million since June 30, 2012. While gross capital assets increased, primarily for equipment purchases including EPIC patient accounting software that went live March 1, 2013, there was an overall decrease as a result of depreciation expense.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

Other noncurrent assets increased \$23.4 million. The increase relates primarily to a deposit for land improvements for the Northside project of approximately \$2.0 million and a new \$20 million debt service reserve fund related to the Shands Jacksonville Medical Center Taxable Notes, Series 2013.

Since June 30, 2012, other current liabilities increased approximately \$0.6 million and other noncurrent liabilities increased approximately \$21.2 million, primarily related to the Shands Jacksonville Medical Center Taxable Notes, Series 2013, resulting in a net liability increase of \$21.7 million.

As of June 30, 2013, the Company has approximately \$139.9 million in debt outstanding compared to approximately \$124.7 million at June 30, 2012. On June 27, 2013, the Company issued the index rate \$100 million Shands Jacksonville Medical Center Taxable Notes, Series 2013, which are held in their entirety by Bank of America, N.A. This enabled the Company to finance various capital improvement projects, refund the outstanding principal of the Series 2005 and Series 2008 Bonds, escrow funds for an in-substance defeasance of the Series 2004 Bonds and to pay related issuance costs.

The promissory note owed to Shands for \$42.3 million, as mentioned above, was recorded by the Company during fiscal year 2011. The note payable balance at June 30, 2013 is approximately \$39.9 million.

The Company was in compliance with all covenants at June 30, 2013.

Consolidated Basic Statements of Revenues, Expenses and Changes in Net Position

The following table presents the Company's condensed consolidated basic statements of revenues, expenses and changes in net position. The table presents the extent to which the Company's overall net position decreased as a result of operations or other reasons.

(in thousands of dollars)

	2013	2012
Net patient service revenue	\$ 487,436	\$ 483,830
Other operating revenue	35,440	31,446
Total operating revenues	<u>522,876</u>	<u>515,276</u>
Operating expenses	<u>503,338</u>	<u>508,458</u>
Operating Income	19,538	6,818
Nonoperating revenues (expenses), net	<u>(3,061)</u>	<u>(2,267)</u>
Excess of revenues over expenses before transfers and capital contributions	16,477	4,551
Other changes in net assets:		
Transfers and expenditures in support of the University of Florida and its medical programs	(22,301)	(27,437)
Capital contributions, net	44	837
Decrease in net position	<u>\$ (5,780)</u>	<u>\$ (22,049)</u>

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

Patient Volumes

Compared to prior fiscal year, inpatient volumes decreased while outpatient volumes increased during fiscal year 2013. The following table reflects the associated volumes on a comparative basis to the prior year for fiscal year-end as of June 30:

	2013	2012	Net Change	% Change
Inpatient admissions	24,001	26,476	(2,475)	-9.3%
Outpatient visits	365,249	351,818	13,431	3.8%

Inpatient admissions, excluding observation cases, compared to the prior year have decreased by 2,475 or 9.3%. This decrease is primarily due to the termination of the Humana Medicare Advantage contract in October 2011 as well as a shift toward more observation cases, which are included as outpatient visits, rather than inpatient admissions. Total outpatient visits have increased by 3.8% due to the shift just mentioned and the opening of the Total Care Clinic.

Operating Revenues

June 30, 2013 fiscal year-end patient service revenue of approximately \$487.4 million, net of allowances for contractual discounts, charity care and bad debt expense, represents an increase of approximately \$3.6 million, or 0.7% in comparison to the same time period from the prior fiscal year. Other operating revenues of approximately \$35.4 million, is an increase of approximately \$4.0 million, or 12.7%, from the prior year. This increase is primarily related to an approximately \$4.2 million settlement related to the provider service network (PSN) plan year 2009, increased enrollment in the PSN and increases in electronic medical records meaningful use grant revenue.

Operating Expenses

Operating expenses of approximately \$503.3 million through fiscal year-end June 30, 2013, decreased by approximately \$5.1 million, or 1.0%, in comparison to fiscal year-end June 30, 2012. The net decrease is primarily related to a \$9.2 million reduction in self-insured employee health costs. The reduction was driven by improved claims experience prior to January 2013 and participating with other UF Health affiliates in a self-insured employee health pool known as GatorCare beginning January 2013. The decrease was offset by growth in PSN membership; additional expenditures related to the PSN plan year 2009 settlement described above and increases in depreciation, service/maintenance and consulting costs as the result of implementing the first phase of the EPIC system in January 2012 and the second phase in March 2013.

Nonoperating (Expenses) Revenues, net

Nonoperating expenses, net, for fiscal year-end June 30, 2013, were approximately \$3.1 million, which includes interest expense of approximately \$3.8 million, investment income of approximately \$1.4 million, an investment fair value decrease of approximately \$1.4 million and a fair value increase for derivatives for approximately \$0.7 million. The nonoperating expenses, net, increase over the fiscal year ended June 30, 2012 was \$0.8 million, or 35%.

Consolidated Basic Statements of Cash Flows

The consolidated basic statements of cash flows provides additional information in regards to the Company's financial results by reporting the major sources and uses of cash.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

Total cash and cash equivalents increased in fiscal year 2013 by approximately \$17.6 million and short-term investments decreased \$36.1 million producing a net decrease of \$18.5 million over June 30, 2012. Amounts due from patient accounts receivable, net, are approximately \$82.3 million at June 30, 2013 as compared to approximately \$63.5 million at June 30, 2012, which as previously noted was expected to increase as a result of a collection lag from implementing the EPIC patient accounting system only three (3) months prior to fiscal year-end 2013. Amounts due from City and State agencies are approximately \$5.2 million at June 30, 2013 as compared to approximately \$6.4 million at June 30, 2012. Assets whose use is restricted increased \$16.4 million, with a \$20 million increase in the non-current portion for a debt service reserve fund related to the Shands Jacksonville Medical Center Taxable Notes, Series 2013 and a decrease of \$3.6 million related to refunding the Series 2005 Bonds. Prepaid expenses and other current assets increased approximately \$4.1 million since June 30, 2012. Estimated third-party payor settlements increased approximately \$8.3 million during fiscal year 2013.

Cash paid for capital asset acquisitions during fiscal year 2013 totaled approximately \$10.0 million. Fiscal year 2013 payments of principal on long-term debt and capital lease obligations totaled approximately \$12.2 million, which excludes Shands Jacksonville Medical Center Taxable Notes, Series 2013 debt proceeds paid directly to refund debt and into an irrevocable trust for an in-substance defeasance. Interest payments were approximately \$2.4 million and amounts paid on other borrowings were \$5.5 million. Proceeds from the issuance of the Shands Jacksonville Medical Center Taxable Notes, Series 2013 totaled approximately \$25.9 million of the \$100 million issuance, which, as described previously, excludes amounts not received directly by SJMC and then disbursed. The Company also made funding contributions of approximately \$3.3 million into the frozen defined benefit employee pension plan during fiscal year 2013.

Credit Ratings

The Company's underlying credit rating of BBB+ was provided by Fitch Ratings in June 2013.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Management's Discussion and Analysis (Unaudited)
June 30, 2013 and 2012

June 30, 2012

Consolidated Basic Statements of Net Position

The consolidated basic statements of net position presents the financial position of the Company and includes all assets and liabilities of the Company. The Company's net position, or the difference between total assets and total liabilities, are one indicator of the current financial condition of the Company. Changes in net position are an indicator of whether the overall financial condition of the organization has improved or worsened over a period of time. Assets and liabilities are generally measured using current values, with the exception of capital assets, which are stated at historical cost less allowances for depreciation.

A summary of the Company's condensed consolidated basic statements of net position is presented below:

(in thousands of dollars)

	2012	2011
Cash and cash equivalents and short-term investments	\$ 107,857	\$ 127,432
Other current assets	86,984	92,679
Capital assets, net	179,426	161,359
Other noncurrent assets	42,974	37,252
Total assets	<u>\$ 417,241</u>	<u>\$ 418,722</u>
Current liabilities	\$ 108,695	\$ 92,411
Noncurrent liabilities	137,206	132,922
Total liabilities	<u>245,901</u>	<u>225,333</u>
Net position		
Net investment in capital assets	86,439	69,388
Restricted:		
Expendable	3,843	3,006
Unrestricted	81,058	120,995
Total net position	<u>171,340</u>	<u>193,389</u>
Total liabilities and net position	<u>\$ 417,241</u>	<u>\$ 418,722</u>

Cash and cash equivalents and short-term investments at June 30, 2012 decreased by approximately \$19.6 million since June 30, 2011. See the "Consolidated Basic Statements of Cash Flows" section below for further information regarding cash activity.

Other current assets decreased by approximately \$5.7 million since June 30, 2011 largely due to improved collection timing in several areas. Net patient accounts receivable declined approximately \$2.4 million, prepaid expenses and other miscellaneous receivables decreased approximately \$2.0 million, due from city and state agencies decreased approximately \$1.0 million, inventories decreased approximately \$0.4 and the sinking fund deposit increased by approximately \$0.1 million.

Shands Jacksonville HealthCare, Inc. and Subsidiaries Management's Discussion and Analysis (Unaudited) June 30, 2013 and 2012

Capital assets, net, increased approximately \$18.1 million since June 30, 2011 related primarily to the new electronic medical records system.

Other noncurrent assets increased \$5.7 million. A deposit for land improvements for the Northside project contributed approximately \$2.0 million to that increase. The remaining increase relates primarily to pension plan contributions, net of amortization.

Since June 30, 2011, other current liabilities increased approximately \$16.3 million and other noncurrent liabilities increased approximately \$4.3 million. Both are primarily related to amounts due for the new electronic medical records system. Additionally, the Company entered into new capital leases, which were used for a variety of equipment including a chemical analyzer and MRI.

As of June 30, 2012, the Company has approximately \$124.7 million in debt outstanding compared to approximately \$133.3 million at June 30, 2011. The long-term debt is comprised of a number of bond issues and a promissory note. The promissory note with an original balance of \$42.3 million, as mentioned above, was recorded by the Company during fiscal year 2011. During 2010, the Series 2008 Bonds were converted from variable to index rate bonds, which are now held in their entirety by Wells Fargo Bank, during the initial index rate period. The Series 2005 Bonds are variable rate bonds, which are backed by a bank letter of credit from TD Bank issued during 2010 for approximately \$29,000,000, which expires in October 2015 (coterminous with the maturity of the bonds). No amounts were outstanding under this letter of credit at either June 30, 2012 or June 30, 2011.

As of June 30, 2012, the Company was in violation of its debt service coverage ratio covenants on its bond debt. The covenant violations also caused the Company to violate a cross-default provision in the 2011 note payable to Shands. The Company obtained waiver letters for these violations covering the events of default through July 1, 2013, with the exception of the Series 2004 Bonds with Ambac Financial Group, Inc. ("Ambac"). Therefore, approximately \$2,730,000 due to Ambac was reclassified from long-term debt to current portion of long-term debt in the consolidated basic statements of net position as of June 30, 2012. The Company was in compliance with all other covenants at June 30, 2012. For additional details, please see note 6 of the consolidated basic financial statements.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Management's Discussion and Analysis (Unaudited)
June 30, 2013 and 2012

Consolidated Basic Statements of Revenues, Expenses and Changes in Net Position

The following table presents the Company's condensed consolidated basic statements of revenues, expenses and changes in net position. The table presents the extent to which the Company's overall net position decreased as a result of operations or other reasons.

(in thousands of dollars)

	2012	2011
Net patient service revenue	\$ 483,830	\$ 501,960
Other operating revenue	31,446	24,621
Total operating revenues	<u>515,276</u>	<u>526,581</u>
Operating expenses	<u>508,458</u>	<u>499,390</u>
Operating Income	6,818	27,191
Nonoperating (expenses) revenues, net	<u>(2,267)</u>	<u>3,991</u>
Excess of revenues over expenses before transfers, capital contributions, and note payable to Shands	4,551	31,182
Other changes in net assets:		
Transfers and expenditures in support of the University of Florida and its medical programs	(27,437)	(26,647)
Capital contributions, net	837	206
Note payable to Shands	-	(42,276)
Decrease in net position	<u>\$ (22,049)</u>	<u>\$ (37,535)</u>

Patient Volumes

Compared to prior fiscal year, inpatient volumes decreased while outpatient volumes increased during fiscal year 2012. The following table reflects the associated volumes on a comparative basis to the prior year for fiscal year-end as of June 30:

	2012	2011	Net Change	% Change
Inpatient admissions	26,476	28,644	(2,168)	-7.6%
Outpatient visits	351,818	339,486	12,332	3.6%

Inpatient admissions, excluding observation cases, compared to the prior year have decreased by 2,168 or 7.6%. This decrease is primarily due to the termination of the Humana Medicare Advantage contract as well as a decrease in certain surgical cases. The decrease in admissions from prior year is seen largely in Medicine, OB/GYN, and Orthopedics. Total outpatient visits have increased by 3.6%. The increase in the ancillary visits over prior year was partially offset by a reduction in hospital-based clinic visits.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

Operating Revenues

June 30, 2012 fiscal year-end patient service revenue of approximately \$483.8 million, net of allowances for contractual discounts, charity care and bad debt expense, represents an \$18.1 million, or 3.6%, decrease in comparison to the same time period from the prior fiscal year. In addition to the impact from the termination of the Humana contract, patient service revenue for the fiscal year ending June 30, 2012 was materially impacted by a \$16.2 million decrease in state of Florida disproportionate share funding. Revenue increases associated with higher outpatient volumes and reimbursement rates were offset by the previously noted decreases in state of Florida funding and inpatient volumes. Other operating revenues of approximately \$31.4 million is an increase of approximately \$6.8 million, or 27.7%, over the prior year, primarily due to revenue recognition of a Medicaid Meaningful Use of electronic health records.

Operating Expenses

Operating expenses of approximately \$508.5 million through fiscal year-end June 30, 2012, increased by \$9.1 million, or 1.8%, in comparison to fiscal year-end June 30, 2011. Growth in membership in the provider service network led to increased costs as did increases in salaries, wages and benefits for additional staffing, which corresponds with the increase in outpatient volume and increased employee and retiree medical claims expense. Implementation of a new electronic health records system resulted in expenditures of \$4.6 million, which included \$1.4 million for consultants, \$1.2 million for backfill and overtime wages, \$1.2 million for support and maintenance contracts and \$0.5 million for training costs. These increases were offset by approximately \$4.0 million in reduced insurance costs.

Nonoperating (Expenses) Revenues, net

Nonoperating expenses, net for the fiscal year-ended June 30, 2012 were approximately \$2.3 million. Interest expense of approximately \$3.6 million is included in nonoperating expenses, net. Investment income totaled approximately \$1.9 million. The fair value increase for investments is \$0.6 million. The fair value decrease for derivatives is approximately \$1.1 million.

Consolidated Basic Statements of Cash Flows

The consolidated basic statements of cash flows provides additional information in regards to the Company's financial results by reporting the major sources and uses of cash.

Total cash and cash equivalents decreased in fiscal year 2012 by approximately \$21.9 million. Amounts due from patient accounts receivable, net, are approximately \$63.5 million at June 30, 2012 as compared to approximately \$65.9 million at June 30, 2011. Amounts due from City and State agencies are approximately \$6.4 million at June 30, 2012 as compared to approximately \$7.4 million at June 30, 2011. Capital asset acquisitions during the fiscal year 2012 totaled approximately \$12.6 million. The approximately \$5.2 million of proceeds from disposal of capital assets relate primarily to two sale-leaseback agreements. As previously mentioned, a \$2 million deposit was made related to the Northside project. Fiscal year 2012 payments of principal on long-term debt and capital lease obligations were approximately \$9.6 million and interest payments were approximately \$3.7 million. The Company also made funding contributions of \$7.2 million into the frozen defined benefit employee pension plan during fiscal year 2012.

Credit Ratings

The Company's underlying credit rating of Baa1, from Moody's Investor Services, was reaffirmed in December 2011.



Report of Independent Certified Public Accountants

The Board of Directors of
Shands Jacksonville HealthCare, Inc. and Subsidiaries

We have audited the accompanying consolidated basic financial statements of Shands Jacksonville HealthCare, Inc. and Subsidiaries (the "Company") as of and for the years ended June 30, 2013 and 2012, and the related notes to the consolidated basic financial statements, which comprise the consolidated basic statements of net position, and the related consolidated basic statements of revenues, expenses and changes in net position and the consolidated basic statements of cash flows for the years then ended.

Management's Responsibility for the Consolidated Basic Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated basic financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the consolidated basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated basic financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated basic financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated basic financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated basic financial statements referred to above present fairly, in all material respects, the respective financial net position of Shands Jacksonville HealthCare, Inc. and Subsidiaries at June 30, 2013 and 2012, and the respective changes in financial net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Emphasis of Matter

As discussed in Note 2 to the consolidated basic financial statements, the Company adopted Governmental Accounting Standards Board (“GASB”) No. 63, *Financial Reporting of Defined Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective July 1, 2011. Our opinion is not modified with respect to this matter.

Other Matters

The accompanying Management’s Discussion and Analysis (“MD&A”) (Unaudited) for the years ended June 30, 2013 and 2012 on pages 1 through 9, the Schedule of Plan Funding Progress (Unaudited) as of July 1, 2008 through March 31, 2013, the Historical Summary of Actual and Required Pension Contributions (Unaudited) as of July 1, 2007 through June 30, 2013, and the Historical Summary of Actual and Required Other Postemployment Contributions under GASB Statement No. 45 (Unaudited) as of July 1, 2010 through June 30, 2013 on pages 42 through 44 are required by accounting principles generally accepted in the United States of America to supplement the consolidated basic financial statements. Such information, although not a part of the consolidated basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the consolidated basic financial statements, and other knowledge we obtained during our audits of the consolidated basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the Company’s consolidated basic financial statements. The consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated basic financial statements or to the consolidated basic financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "PricewaterhouseCoopers 22P", is written over a faint, circular official seal.

September 30, 2013

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidated Basic Statements of Net Position
June 30, 2013 and 2012

(in thousands of dollars)

	2013	2012
Assets		
Current assets		
Cash and cash equivalents	\$ 48,209	\$ 30,638
Short-term investments	41,141	77,219
Patient accounts receivable, net of allowance for uncollectibles of \$65,869 and \$51,920, respectively	82,316	63,486
Due from city and state agencies	5,185	6,395
Inventories	10,336	9,016
Prepaid expenses and other current assets	8,645	4,519
Assets whose use is restricted, current portion	-	3,568
Total current assets	<u>195,832</u>	<u>194,841</u>
Assets whose use is restricted, less current portion	39,500	19,500
Capital assets, net	170,987	179,426
Other assets	26,872	23,474
Total assets	<u>\$ 433,191</u>	<u>\$ 417,241</u>
Liabilities and Net Position		
Current liabilities		
Long-term debt, current portion	\$ 2,575	\$ 11,585
Capital lease obligations, current portion	2,225	1,873
Accounts payable and accrued expenses	53,965	49,458
Accrued salaries and leave payable	19,708	23,269
Estimated third-party payor settlements	30,796	22,510
Total current liabilities	<u>109,269</u>	<u>108,695</u>
Long-term liabilities		
Long-term debt, noncurrent portion	137,341	113,141
Capital lease obligations, noncurrent portion	6,256	7,064
Other liabilities	14,765	17,001
Total long-term liabilities	<u>158,362</u>	<u>137,206</u>
Total liabilities	<u>267,631</u>	<u>245,901</u>
Commitments and contingencies		
Net position		
Net investment in capital assets	62,505	86,439
Restricted		
Expendable	3,887	3,843
Unrestricted	99,168	81,058
Total net position	<u>165,560</u>	<u>171,340</u>
Total liabilities and net position	<u>\$ 433,191</u>	<u>\$ 417,241</u>

The accompanying notes are an integral part of these consolidated basic financial statements.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidated Basic Statements of Revenues, Expenses, and Changes in Net
Position
Years Ended June 30, 2013 and 2012

(in thousands of dollars)

	2013	2012
Operating revenues		
Net patient service revenue, net of provision for bad debts of \$86,208 and \$68,372, respectively	\$ 487,436	\$ 483,830
Other operating revenue	35,440	31,446
Total operating revenues	<u>522,876</u>	<u>515,276</u>
Operating expenses		
Salaries and benefits	240,324	254,300
Supplies and services	239,426	232,353
Depreciation and amortization	23,588	21,805
Total operating expenses	<u>503,338</u>	<u>508,458</u>
Operating income	<u>19,538</u>	<u>6,818</u>
Nonoperating revenues (expenses)		
Interest	(3,787)	(3,621)
Other nonoperating gains (losses)	699	(1,077)
Net investment (loss) gain, including change in fair value	(6)	2,490
Gain (loss) on disposal of capital assets, net	33	(59)
Total nonoperating revenues (expenses), net	<u>(3,061)</u>	<u>(2,267)</u>
Excess of revenues over expenses before transfers and capital contributions	16,477	4,551
Transfers and expenditures in support of the University of Florida and its medical programs	(22,301)	(27,437)
Capital contributions, net	44	837
Decrease in net position	<u>(5,780)</u>	<u>(22,049)</u>
Net position		
Beginning of year	<u>171,340</u>	<u>193,389</u>
End of year	<u>\$ 165,560</u>	<u>\$ 171,340</u>

The accompanying notes are an integral part of these consolidated basic financial statements.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidated Basic Statements of Cash Flows
Years Ended June 30, 2013 and 2012

(in thousands of dollars)

	2013	2012
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 478,101	\$ 486,739
Other receipts from operations	31,317	33,716
Salaries and benefits paid to employees	(244,626)	(257,327)
Payments to suppliers and vendors	(238,952)	(231,805)
Net cash provided by operating activities	<u>25,840</u>	<u>31,323</u>
Cash flows from noncapital financing activities		
Interest paid on Shands note	(453)	(1,851)
Payments in support of the University of Florida and its medical programs	(22,301)	(27,437)
Payments of long-term debt of Shands	(352)	(1,368)
Net cash used in noncapital financing activities	<u>(23,106)</u>	<u>(30,656)</u>
Cash flows from capital and related financing activities		
Purchases of capital assets	(10,041)	(12,552)
Proceeds from sale of capital assets	50	5,233
Proceeds from issuance of note payable	25,890	-
Payments of long-term debt and capital lease obligations	(12,214)	(8,258)
Payments of other capital borrowings	(5,500)	(6,101)
Interest paid	(1,914)	(1,808)
Capital contributions	44	837
Net cash used in capital and related financing activities	<u>(3,685)</u>	<u>(22,649)</u>
Cash flows from investing activities		
Investment income received	1,500	1,951
Investment purchases	(1,222)	-
Redemption of short-term investments and assets whose use is restricted	36,000	-
Purchase of short-term investments and assets whose use is restricted	(17,756)	(1,846)
Net cash provided by investing activities	<u>18,522</u>	<u>105</u>
Net increase (decrease) in cash and cash equivalents	17,571	(21,877)
Cash and cash equivalents		
Beginning of year	<u>30,638</u>	<u>52,515</u>
End of year	<u>\$ 48,209</u>	<u>\$ 30,638</u>

The accompanying notes are an integral part of these consolidated basic financial statements.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidated Basic Statements of Cash Flows
Years Ended June 30, 2013 and 2012

(in thousands of dollars)

	2013	2012
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 19,538	\$ 6,818
Adjustments to operating income to net cash provided by operating activities		
Depreciation and amortization	23,588	21,805
Provision for bad debts	86,208	68,372
Changes in:		
Patient accounts receivable	(103,828)	(64,984)
Prepaid expenses, inventories and other current assets	(5,689)	2,253
Other assets	(2,768)	(5,984)
Accounts payable and accrued expenses	902	5,197
Estimated third-party payor settlements	8,286	(479)
Other liabilities	(397)	(1,675)
Total adjustments	6,302	24,505
Net cash provided by operating activities	\$ 25,840	\$ 31,323
Disclosure of supplemental cash flow information		
Capital assets purchased through capital lease obligations and other borrowings	\$ 11,271	\$ 31,001
Net (decrease) increase in fair value of investments	(1,400)	564
Net increase (decrease) in fair value of derivatives	698	(1,077)
Loss related to undepreciated costs on capital asset disposals	33	4,889
Series 2013 notes payable proceeds paid directly to redeem Series 2005 and 2008 bonds	71,281	-
Series 2013 notes payable escrowed immediaty in an irrevocable trust for defeasance of Series 2004 A&B bonds	2,829	-

The accompanying notes are an integral part of these consolidated basic financial statements.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

June 30, 2013 and 2012

1. Organization

Shands Jacksonville HealthCare, Inc. (the “Company”) formerly known as Jacksonville Health Group, Inc., is a not-for-profit corporation with direct control over Shands Jacksonville Medical Center, Inc. (“SJMC”) and direct or indirect control over numerous other entities. During 2013, SJMC began doing business as UF Health Jacksonville. SJMC, formerly known as University Medical Center, Inc. (“UMC”), is a not-for-profit corporation and the principal operating subsidiary of the Company. SJMC operates a teaching hospital located in Jacksonville, Florida, through a lease with the City of Jacksonville (the “City”) under the terms described in Note 10. The teaching hospital is licensed to operate 695 beds and provides clinical settings for medical education programs at the University of Florida (“UF”).

The President of UF, or his designee, is responsible for the oversight of the Company. The President of UF is appointed by a Board of Trustees that governs UF (the “UF Board”). The members of the UF Board are appointed by the Governor and Board of Governors of the state of Florida.

Effective September 8, 2010, the Board of Directors of Shands Teaching Hospital and Clinics, Inc. (“Shands”) approved a motion to reorganize its corporate structure. Under the reorganization, Shands would no longer be the sole corporate member of the Company, but would continue as an affiliated entity under common control of UF. Effective September 27, 2010, the Board of Directors of the Company approved the motion for Shands to no longer be the sole corporate member of the Company. The Company continues to receive management and operational services from Shands.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated basic financial statements have been prepared on the accrual basis of accounting and include the accounts of the Company and its subsidiaries. Significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of these consolidated basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated basic financial statements and accompanying notes. Actual results could differ from those estimates.

Tax Status

The Company and its subsidiaries are exempt from federal income taxes pursuant to Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code and from state income taxes pursuant to Chapter 220 of the Florida Statutes.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid instruments with maturities of three months or less when purchased, except those classified as assets whose use is restricted in the accompanying consolidated basic financial statements.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

June 30, 2013 and 2012

Investments

Investments consist of money market funds and participation in the Florida State Treasury special investment program ("SPIA"). Investments are carried at fair value. Interest, dividends, and gains and losses on investments, both realized and unrealized, are included in nonoperating revenues (expenses) when earned.

The estimated fair value of investments is based on quoted market prices. Unrealized gains or losses on investments resulting from fair value fluctuations are recorded in the accompanying consolidated basic statements of revenues, expenses, and changes in net position in the period such fluctuations occur.

Inventories

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first-out) or market value.

Contributions Receivable

Contributions receivable include unconditional promises to give and amounts collected on behalf of the Company held by Southeastern Healthcare Foundation or the University of Florida Foundation. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in the future are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Conditional promises to give are not included as revenue until the conditions are substantially met. Contributions receivable are recorded in other assets in the accompanying consolidated basic statements of net position.

Assets Whose Use is Restricted

Assets whose use is restricted are cash and cash equivalents comprised of a debt service reserve fund and internally designated funds for clinical support, education, research, and other health programs and amounts to be used for mandatory redemption of bonds.

Capital Assets

Capital assets are recorded at cost, except for donated items, which are recorded at fair value at the date of receipt as an addition to net position. Depreciation for financial reporting purposes is computed using the straight-line method over the estimated useful lives of the related depreciable assets. Capital assets under capital leases are amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the related assets. Such amortization is included in depreciation and amortization expense in the accompanying consolidated basic statements of revenues, expenses, and changes in net position. Gains and losses on dispositions are recorded in the year of disposal.

Costs of Borrowing

Interest costs incurred on borrowed funds during the period of construction or development of capital assets are capitalized as a component of the cost of acquiring those assets. At June 30, 2013 all bond issue costs were expensed or fully amortized as were all original discounts or premiums. During fiscal year 2012, bond issuance costs and original issue discounts and premiums were amortized over the period the obligation was outstanding using the effective interest method. Amortization expense of approximately \$408,000 and \$78,000 was recorded for the years ended June 30, 2013 and 2012. There was no unamortized bond costs at June 30, 2013 and approximately \$408,000 at June 30, 2012 was recorded in other assets in the accompanying consolidated basic statements of net position.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

June 30, 2013 and 2012

Accrued Personal Leave

The Company provides accrued time off to eligible employees for vacations, holidays, and short-term illness dependent on their years of continuous service and their payroll classification. The Company accrues the estimated expense related to personal leave based on pay rates currently in effect. Upon termination of employment, employees will have their eligible accrued personal leave paid in full.

Long-Term Debt

The fair value of long-term debt is estimated based on dealer quotes for hospital tax-exempt debt with similar terms and maturities and using discounted cash flow analyses based on current interest rates for similar types of borrowing arrangements. The carrying amount at June 30, 2013 and 2012 is approximately \$139,916,000 and \$124,726,000, respectively. The estimated fair value at June 30, 2013 and 2012 is approximately \$139,916,000 and \$124,984,000, respectively. This value represents a general approximation of possible value and may never actually be realized.

Net Position

Net position is categorized as “net investment in capital assets,” “restricted - expendable,” and “unrestricted.” Net investment in capital assets is intended to reflect the portion of net position that is associated with non-liquid capital assets, less outstanding balances due on borrowings used to finance the purchase or construction of those assets related to debt. Restricted – expendable have restrictions placed on their use through external constraints imposed by contributors. Unrestricted are those that do not meet the definition of invested in capital assets, net of related debt and have no third-party restrictions on use.

Operating Revenues and Expenses

The Company’s consolidated basic statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Company’s principal activity. Net investment income, interest expense, and gain (loss) on disposal of assets are reported as nonoperating revenues (expenses). Donations received for the purpose of acquiring or constructing capital assets are recorded below nonoperating revenues (expenses) as capital contributions. Operating expenses are all expenses incurred to provide health care services.

Net Patient Service Revenue and Patient Accounts Receivable

SJMC has agreements with third-party payors that provide for payments to SJMC at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue and patient accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. For the years ended June 30, 2013 and 2012, net patient service revenue increased by approximately \$1,826,000 and \$14,941,000, respectively, due to such adjustments.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

June 30, 2013 and 2012

Medicare

The Company participates in the federal Medicare program ("Medicare"). Approximately 29% and 27% of the Company's net patient service revenue in fiscal years 2013 and 2012, respectively, was derived from services to Medicare beneficiaries. Inpatient acute care services rendered to Medicare beneficiaries are reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Inpatient non-acute services, outpatient services, and defined capital costs related to Medicare beneficiaries are reimbursed based upon a prospective reimbursement methodology. The Company is paid for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Company and audits by the Medicare fiscal intermediary. The Company's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review. As of June 30, 2013, the Medicare cost reports were final settled by the Company's Medicare fiscal intermediary through June 30, 2008.

Medicaid

Approximately 27% of the Company's net patient service revenue for fiscal years 2013 and 2012 was derived under the Medicaid program. Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based upon a cost reimbursement methodology subject to certain ceilings. The Company is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the health care facilities and audits by the Medicaid fiscal intermediary. The Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2008. In addition to the tentative payments received by the Company for the provision of health care services to Medicaid beneficiaries, the state of Florida provides supplemental Medicaid and disproportionate share payments to reflect the additional costs associated with treating the Medicaid population in Florida. These amounts are reflected in net patient service revenue in the accompanying consolidated basic statements of revenues, expenses, and changes in net position.

The Company's Medicaid interim rates are based on the most recent "as filed" Medicare/Medicaid cost reports. The rates used in fiscal year 2013 were based on the unaudited 2011 cost report. The rates used in fiscal year 2012 were based on the unaudited 2010 cost report.

Other Third-Party Payors

The Company has also entered into reimbursement agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined per diem rates.

It is management's opinion that settlements of outstanding Medicare and Medicaid cost reports, when received, will not vary materially from the estimated amounts, which are recorded as current liabilities in the accompanying consolidated basic statements of net position.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

June 30, 2013 and 2012

Provision for Bad Debts and Allowance for Uncollectible Accounts

The provision for bad debts is based on management's assessment of historical and expected net collections, considering business and economic conditions, trends in federal and state governmental health care coverage, and other collection indicators. Throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon these trends. The results of this review are then used to make any modification to the provision for bad debts to establish an appropriate allowance for uncollectible accounts. Patient accounts receivable are written off after collection efforts have been followed under the Company's policies.

Derivative Financial Instruments

The Company uses interest rate swaps, which are not designated as hedge instruments, to manage net exposure to interest rate changes related to its borrowings and to lower its overall borrowing costs. The Company accounts for its derivatives in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* ("GASB No. 53"). GASB No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments (Note 7). Changes in fair value of interest rate swaps that do not qualify for hedge accounting are included within other nonoperating losses in the consolidated basic statements of revenues, expenses, and changes in net position.

Accounting Pronouncements

In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting and Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("GASB No. 63"). GASB No. 63 improves financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The provisions of GASB No. 63 are effective for financial statements for periods beginning after December 15, 2011. The Company adopted GASB No. 63 on July 1, 2012. The adoption of GASB No. 63 did not have a significant impact on the Company's consolidated basic financial statements as there were no deferred inflows or outflows.

In June 2011, the GASB issued GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* ("GASB No. 64"), an amendment of GASB No. 53. GASB No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. GASB No. 64 sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of GASB No. 64 are effective for financial statements for periods beginning after June 15, 2011. The Company adopted GASB No. 64 on July 1, 2012. The adoption of GASB No. 64 did not have an impact on the Company's consolidated basic financial statements.

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB No. 65"). GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations, and limits the use of the term 'deferred' in financial statements. The provisions of GASB No. 65 are effective for financial statements for periods beginning after December 15, 2012. The Company is currently evaluating the impact GASB No. 65 will have on its consolidated basic financial statements.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

June 30, 2013 and 2012

In March 2012, the GASB issued GASB Statement No. 66, *Technical Corrections - 2012, an Amendment of GASB Statements No. 10 and No. 62* ("GASB No. 66"). The objective of GASB No. 66 is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, GASB Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB No. 66 amends GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in GASB Statement No. 54 and GASB Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis— for State and Local Governments*. GASB No. 66 also amends GASB Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply GASB Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The provisions of GASB No. 66 are effective for financial statements for periods beginning after December 15, 2012. The Company is currently evaluating the impact GASB No. 66 will have on its consolidated basic financial statements.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27* ("GASB No. 68"). The primary objective of GASB No. 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB No. 68 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. GASB No. 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, GASB No. 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. In addition, GASB No. 68 details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. GASB No. 68 is effective for fiscal years beginning after June 15, 2014. The Company is currently evaluating the impact GASB No. 68 will have on its consolidated basic financial statements.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

June 30, 2013 and 2012

In January 2013, the GASB issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* ("GASB No. 69"), which establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in GASB No. 69, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. Until now, governments have accounted for mergers, acquisitions, and transfers of operations by analogizing to accounting and financial reporting guidance intended for the business environment, generally APB Opinion No. 16, *Business Combinations*. GASB No. 69 provides specific accounting and financial reporting guidance for combinations in the governmental environment. GASB No. 69 is effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. The Company is currently evaluating the impact GASB No. 69 will have on its consolidated basic financial statements.

In April 2013, the GASB issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* ("GASB No. 70"), which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is *more likely than not* that the guarantor will be required to make a payment to the obligation holders under the agreement. Except for disclosures related to cumulative amounts paid or received in relation to a financial guarantee, the provisions of GASB No. 70 are required to be applied retroactively. Disclosures related to cumulative amounts paid or received in relation to a financial guarantee may be applied prospectively. GASB No. 70 is effective for fiscal years beginning after June 15, 2013. The Company is currently evaluating the impact GASB No. 70 will have on its consolidated basic financial statements.

3. **Un-sponsored Community Benefit**

Community benefit is a planned, managed, organized, and measured approach to a health care organization's participation in meeting identified community health needs. It implies collaboration with a "community" to "benefit" its residents, particularly the poor and other underserved groups, by improving health status and quality of life. Community benefit projects and services are identified by health care organizations in response to findings of a community health assessment, strategic and/or clinical priorities, and partnership areas of attention.

Community benefit categories include financial assistance, community health services, health professions education, research, and donations. The Company has a long history of providing community benefits and has quantified these benefits using national guidelines developed by the Catholic Health Association in collaboration with the Voluntary Hospital Association ("VHA").

The Company has policies providing financial assistance for patients requiring care but who have limited or no means to pay for that care. These policies provide free or discounted health and health-related services to persons who qualify under certain income and assets criteria. Because the Company does not pursue collection of amounts determined to qualify for financial assistance, they are not reported as net patient service revenue. The Company maintains records to identify and monitor the level of financial assistance it provides. Charges forgone for services provided under the Company's financial assistance policy for the years ended June 30, 2013 and 2012 were approximately \$267,694,000 and \$300,163,000, respectively.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

June 30, 2013 and 2012

In addition to direct financial assistance, the Company provides benefits for the broader community. The cost of providing these community benefits can exceed the revenue sources available. Examples of the benefits provided by the Company and general definitions regarding those benefits are described below:

- Community health services include activities carried out to improve community health. They extend beyond patient care activities and are usually subsidized by the health care organization. Examples include community health education, counseling and support services, and health care screenings.
- Health professions education includes education provided in clinical settings such as internships and programs for physicians, nurses, and allied health professionals. Also included are scholarships for health professional education related to providing community health improvement services and specialty in-service programs to professionals in the community.
- Donations include funds and in-kind services benefiting the community-at-large.

The Company's valuation of unsponsored community benefits at cost for the years ended June 30, 2013 and 2012 is as follows:

<i>(in thousands of dollars)</i>	2013	2012
Financial assistance provided	\$ 63,089	\$ 77,166
Government support applied to charity care	(23,776)	(23,776)
Net unreimbursed financial assistance	<u>39,313</u>	<u>53,390</u>
Benefits for the broader community		
Community health services	1,336	1,239
Health professions education	21,463	24,968
Donations	<u>51</u>	<u>88</u>
Total quantifiable benefits for the broader community	<u>22,850</u>	<u>26,295</u>
Total community benefits	<u>\$ 62,163</u>	<u>\$ 79,685</u>

The cost of financial assistance provided was determined by applying the Company's overall expense to charge ratio to total charges foregone. Cost of benefits for the broader community represents actual expenses incurred.

The Company also plays a leadership role in the communities it serves by providing additional community benefits that have not been quantified. This role includes serving as a state designated Level I trauma center and maintaining air ambulance services to help meet the emergency healthcare needs in Jacksonville.

In addition to the community benefits described above, the Company provides additional benefits to the community through advocacy of community service by employees. The Company's employees serve numerous organizations through board representation, in-kind and direct donations, fund-raising, youth sponsorship, and other related activities.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Notes to Consolidated Basic Financial Statements
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4. Cash, Cash Equivalents, Investments and Assets Whose Use is Restricted

The composition of cash, cash equivalents, investments and assets whose use is restricted at June 30, 2013 and 2012 is as follows:

(in thousands of dollars)

2013	Market Value	Investment Maturities		
		Less Than 1 Year	1-3 Years	More Than 4 Years
Commercial paper	\$ 20,000	\$ 20,000	\$ -	\$ -
Florida Treasury Investment Pool ("SPIA")	41,141	-	41,141	-
Money markets	5,732			
Bank deposits	61,977			
	<u>\$ 128,850</u>			

2012	Market Value	Investment Maturities		
		Less Than 1 Year	1-3 Years	More Than 4 Years
Florida Treasury Investment Pool ("SPIA")	\$ 77,219	\$ -	\$ 77,219	\$ -
Money markets	18,872			
Bank deposits	34,834			
	<u>\$ 130,925</u>			

SPIA funds are combined with State of Florida funds invested in a fixed income portfolio. SPIA participants have the ability to invest and withdraw funds same day with an 11:00 a.m. transaction deadline.

Assets whose use is restricted include amounts internally designated by the Board of Directors and amounts held by trustees and are comprised of the following at June 30, 2013 and 2012:

(in thousands of dollars)

	2013	2012
Internally designated by the Board of Directors for:		
Clinical support, education, research and other health programs	\$ 19,500	\$ 19,500
Debt service reserve fund	20,000	-
Held by bank - under reimbursement agreement	-	3,568
	<u>39,500</u>	<u>23,068</u>
Less: Current portion	-	(3,568)
Long-term portion	<u>\$ 39,500</u>	<u>\$ 19,500</u>

Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as concentration of credit risk, custodial credit risk, interest rate risk and foreign currency risk may affect both equity and fixed income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed income securities may be sensitive to credit risk and changes in interest rates.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Notes to Consolidated Basic Financial Statements
June 30, 2013 and 2012

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Company invests either by participating in SPIA or through an investment agent. The agreement with the investment agent has specific objectives and guidelines, which includes issuer credit quality, a list of specific allowable investments and credit ratings.

The credit risk profile of the Company's investments and assets whose use is restricted as of June 30, 2013 and 2012 is as follows:

(in thousands of dollars)

	Fair Value	Ratings		
		AAA	A1+/P1	A+f
2013				
Money markets	\$ 5,732	\$ 5,732	\$ -	\$ -
Commercial paper	20,000	-	20,000	-
Florida Treasury Investment Pool (SPIA)	41,141	-	-	41,141
	<u>\$ 66,873</u>	<u>\$ 5,732</u>	<u>\$ 20,000</u>	<u>\$ 41,141</u>
2012				
	Fair Value	AAA	A1+/P1	A+f
Money markets	\$ 18,872	\$ 18,872	\$ -	\$ -
Florida Treasury Investment Pool (SPIA)	77,219	-	-	77,219
	<u>\$ 96,091</u>	<u>\$ 18,872</u>	<u>\$ -</u>	<u>\$ 77,219</u>

Concentration of Credit Risk

Investments in any one issuer that represent 5% or more of the Company's investment portfolio are required to be disclosed. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. As of June 30, 2013 and 2012, the Company did not have any investments that equaled or exceeded this threshold.

Custodial Credit Risk

As of June 30, 2013 and 2012, the Company's investments were not exposed to custodial credit risk since the full amount of investments were insured, collateralized, or registered in the Company's name.

Interest Rate Risk

The Company's investment agent guidelines limit maximum effective maturities to one year as a means of managing its exposure to fair value losses arising from increasing interest rates. While SPIA does hold some longer term maturities, participants have the ability to invest and obtain funds same day. Refer to the distribution of the Company's investment in fixed income securities by maturity as of June 30, 2013 and 2012.

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Deposit Risk

In addition to insurance provided by the Federal Deposit Insurance Corporation, all demand deposits are held in banking institutions approved by the State of Florida state treasurer to hold public funds. Under the Florida Statutes Chapter 280, *Florida Security for Public Deposits Act* ("Chapter 280"), the state treasurer requires all qualified public depositories to deposit with the treasurer or another banking institution eligible collateral equal to amounts ranging from 50% to 125% of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held. The percentage of eligible collateral (generally, U.S. government and agency securities, state or local government debt, or corporate bonds) to public deposits is dependent upon the depository's financial history and its compliance with Chapter 280. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses in excess of amounts insured and collateralized.

Investment (loss) gain, net for fiscal years 2013 and 2012 is as follows:

<i>(in thousands of dollars)</i>	2013	2012
Dividends, interest and other income	\$ 1,394	\$ 1,926
Net (decrease) increase in the fair value of investments	<u>(1,400)</u>	<u>564</u>
Investment (loss) gain, net	<u>\$ (6)</u>	<u>\$ 2,490</u>

5. Capital Assets

A summary of changes in capital assets during fiscal years 2013 and 2012 is as follows:

<i>(in thousands of dollars)</i>	Balance at June 30, 2012	Additions	Deletions	Transfers	Balance at June 30, 2013
Land	\$ 22,820	\$ 989	\$ -	\$ -	\$ 23,809
Buildings and leasehold improvements	285,046	181	-	10,129	295,356
Equipment	<u>193,809</u>	<u>1,187</u>	<u>(301)</u>	<u>5,720</u>	<u>200,415</u>
Totals at historical cost	501,675	2,357	(301)	15,849	519,580
Less: Accumulated depreciation for					
Buildings and leasehold improvements	(182,628)	(10,502)	-	-	(193,130)
Equipment	<u>(151,162)</u>	<u>(12,600)</u>	<u>268</u>	<u>-</u>	<u>(163,494)</u>
	167,885	(20,745)	(33)	15,849	162,956
Construction-in-progress	<u>11,541</u>	<u>12,846</u>	<u>(507)</u>	<u>(15,849)</u>	<u>8,031</u>
Capital assets, net	<u>\$ 179,426</u>	<u>\$ (7,899)</u>	<u>\$ (540)</u>	<u>\$ -</u>	<u>\$ 170,987</u>

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<i>(in thousands of dollars)</i>	Balance at June 30, 2011	Additions	Deletions	Transfers	Balance at June 30, 2012
Land	\$ 22,820	\$ -	\$ -	\$ -	\$ 22,820
Buildings and leasehold improvements	277,945	2,621	(3,912)	8,392	285,046
Equipment	<u>240,587</u>	<u>12,136</u>	<u>(71,253)</u>	<u>12,339</u>	<u>193,809</u>
Totals at historical cost	541,352	14,757	(75,165)	20,731	501,675
Less: Accumulated depreciation for					
Buildings and leasehold improvements	(175,695)	(9,866)	2,933	-	(182,628)
Equipment	<u>(206,914)</u>	<u>(11,728)</u>	<u>67,480</u>	<u>-</u>	<u>(151,162)</u>
	158,743	(6,837)	(4,752)	20,731	167,885
Construction-in-progress	<u>2,616</u>	<u>30,799</u>	<u>(1,143)</u>	<u>(20,731)</u>	<u>11,541</u>
Capital assets, net	<u>\$ 161,359</u>	<u>\$ 23,962</u>	<u>\$ (5,895)</u>	<u>\$ -</u>	<u>\$ 179,426</u>

Amortization expense on equipment held under capital lease which is included within depreciation and amortization expense in the consolidated basic statements of revenues, expenses, and changes in net position was approximately \$2,235,000 and \$1,031,000 for the years ended June 30, 2013 and 2012, respectively. Depreciation and amortization expense was approximately \$23,588,000 and \$21,805,000 for the years ended June 30, 2013 and 2012, respectively.

6. Long-Term Debt

Long-term debt is comprised of the following at June 30, 2013 and 2012:

<i>(in thousands of dollars)</i>	2013	2012
SJMC Hospital Revenue Bonds		
Series 2004A, final maturity February 2014	\$ -	\$ 4,905
Series 2004B, final maturity February 2014	-	510
Series 2008, final maturity February 2019	-	59,405
Notes Payable		
2011 Shands Note Payable, final maturity October 2030	39,916	40,267
Series 2013 SJMC Taxable Notes, final maturity July 2014	100,000	-
Hospital Revenue Refunding Bonds Series 2005 (Methodist Hospital Projects), final maturity October 2015	<u>-</u>	<u>19,840</u>
	139,916	124,927
Less: Net unamortized bond discount	<u>-</u>	<u>(201)</u>
Total long-term debt	139,916	124,726
Less: Current portion	<u>(2,575)</u>	<u>(11,585)</u>
Long-term portion	<u>\$ 137,341</u>	<u>\$ 113,141</u>

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Changes in the Company's long-term debt, excluding any unamortized discounts or premiums were as follows:

(in thousands of dollars)

	Balance at June 30, 2012	Additions	Reductions	Balance at June 30, 2013	Amounts Due Within One Year
SJMC Hospital Revenue Bonds					
Series 2004A, final maturity February 2014	\$ 4,905	\$ -	\$ (4,905)	\$ -	\$ -
Series 2004B, final maturity February 2014	510	-	(510)	-	-
Series 2008, final maturity February 2019	59,405	-	(59,405)	-	-
Notes Payable					
2011 Shands Note Payable, final maturity October 2030	40,267	-	(351)	39,916	2,575
Series 2013, SJMC Taxable Notes final maturity July 2014	-	100,000	-	100,000	-
Hospital Revenue Refunding Bonds					
Series 2005, final maturity October 2015	19,840	-	(19,840)	-	-
Total long-term debt	<u>\$ 124,927</u>	<u>\$ 100,000</u>	<u>\$ (85,011)</u>	<u>\$ 139,916</u>	<u>\$ 2,575</u>

(in thousands of dollars)

	Balance at June 30, 2011	Additions	Reductions	Balance at June 30, 2012	Amounts Due Within One Year
SJMC Hospital Revenue Bonds					
Series 2004A, final maturity February 2014	\$ 7,250	\$ -	\$ (2,345)	\$ 4,905	\$ 4,905
Series 2004B, final maturity February 2014	770	-	(260)	510	510
Series 2008, final maturity February 2019	59,405	-	-	59,405	-
2011 Shands Note Payable, final maturity October 2030	41,635	-	(1,368)	40,267	1,430
Hospital Revenue Refunding Bonds					
Series 2005, final maturity October 2015	24,445	-	(4,605)	19,840	4,740
Total long-term debt	<u>\$ 133,505</u>	<u>\$ -</u>	<u>\$ (8,578)</u>	<u>\$ 124,927</u>	<u>\$ 11,585</u>

Maturities of long-term debt including corresponding interest, over the next five years and in five-year increments thereafter are as follows:

(in thousands of dollars)

Year Ending June 30,	Debt Service	
	Principal	Interest
2014	\$ 2,575	\$ 5,221
2015	101,564	3,337
2016	1,636	1,564
2017	1,711	1,489
2018	1,789	1,409
2019-2023	10,251	5,726
2024-2028	12,821	3,127
2029-2033	7,569	391
	<u>\$ 139,916</u>	<u>\$ 22,264</u>

Cash paid for interest was approximately \$2,367,000 and \$3,581,000 for the years ended June 30, 2013 and 2012, respectively. Capitalized interest was approximately \$339,000 for the year ended June 30, 2013. No interest was capitalized for the year ended June 30, 2012.

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See Note 11 for further description of the 2011 Shands Note Payable.

Series 2013 Taxable Notes

On June 27, 2013, the Company issued index rate taxable notes ("Series 2013") to finance various capital improvement projects, refund the outstanding principal of the Series 2005 Bonds and Series 2008 Bonds, escrow funds for an in-substance defeasance of the Series 2004 Bonds and to pay related issuance costs. The notes are privately held by Bank of America, N.A. The index rate is based on one-month LIBOR plus a spread of between 1.50% and 2.25% depending on the date. Although total cash flows related to the new debt service, excluding the increase for capital improvements, will improve by approximately \$2.7 million, the Company will have an economic loss (the difference between the present values of the old and new debt service payments) of approximately \$5.8 million, in the event the Series 2013 Taxable notes are held to maturity.

Series 2004A and 2004B Hospital Revenue Bonds

In 2004, the Jacksonville Economic Development Commission ("JEDC") issued the Series 2004A and 2004B Hospital Revenue Bonds ("Series 2004 Bonds") on behalf of SJMC to finance various capital improvement projects, to refund outstanding principal of the Series 1992 City of Jacksonville Hospital Revenue Bonds, and to pay related issuance costs. Funds to repay the outstanding principal and interest were escrowed and are held by a trustee to achieve an in-substance defeasance as of June 27, 2013.

Series 2005 Hospital Revenue Refunding Bonds

In 2005, the JEDC issued the Series 2005 Hospital Revenue Refunding Bonds ("Series 2005 Bonds") on behalf of Methodist Medical Center, Inc., Methodist Health System, Inc., and The Methodist Hospital Foundation, Inc. (the "Methodist Group"), of which Shands Jacksonville is the sole member. The bonds were used to refund the outstanding principal of the Series 1989A and 1989B City of Jacksonville Hospital Revenue Refunding Bonds and to pay related issuance costs. The Series 2005 were redeemed on June 27, 2013.

Series 2008 Hospital Revenue Bonds

In 2008, the JEDC issued the Series 2008 Hospital Revenue Bonds ("Series 2008 Bonds") on behalf of SJMC to retire the bridge loan used to retire the 2004A and 2004B auction rate bonds and to pay related issuance costs. During 2010, the Series 2008 Bonds were converted from variable to index rate bonds, which are privately held by Wells Fargo Bank, during the five-year initial index rate period. The Series 2008 Bonds were redeemed on June 27, 2013.

Debt Covenants

The Company and SJMC are subject to certain restrictive financial covenants. At June 30, 2013, these covenants require cash on hand of at least 45 days and a minimum debt service coverage ratio of 1.0. The Company was in compliance at June 30, 2013.

As of June 30, 2012, the Company was in violation of its debt service coverage ratio covenants on the Series 2004 Bonds, Series 2005 Bonds, and Series 2008 Bonds with Ambac, TD Bank, N.A. and Wells Fargo Bank, N.A., respectively. The covenant violations also caused the Company to violate a cross-default provision in the 2011 Shands Note Payable with Shands. The Company obtained waiver letters for these violations from TD Bank, N.A., Wells Fargo Bank, N.A. and Shands dated September 21, 2012, October 19, 2012 and September 13, 2012, respectively. The waiver letters from TD Bank, N.A. and Shands covered the events of default through July 1, 2013. In conjunction with the waiver letter from Wells Fargo Bank, N.A., additional restrictive covenants were put in place, the most restrictive of which required quarterly calculations for the minimum debt service coverage covenant and changes to the days cash on hand covenant requirements. The

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Company must maintain a minimum debt service coverage ratio of 0.9 to 1.0, 1.0 to 1.0, and 1.25 to 1.0 for the quarters ending December 31, 2012, March 31, 2013, and June 30, 2013, respectively. The calculation of minimum debt service coverage is cumulative throughout fiscal year 2013. The Company must also maintain days cash on hand of 55 days as of December 31, 2012 and June 30, 2013, 60 days as of December 31, 2013, and 65 days as of June 30, 2014 and for all periods thereafter. The days cash on hand calculation is to be made based on a rolling 12 month period. The Company was unable to obtain a waiver letter from Ambac and therefore amounts due to Ambac of approximately \$2,730,000 have been reclassified from long-term debt to current portion of long-term debt in the consolidated basic statements of net position as of June 30, 2012. The Company was in compliance with all other covenants at June 30, 2012.

7. Interest Rate Swaps

On June 30, 2013 and 2012, the Company had the following nonhedged derivative instruments outstanding:

<i>(in thousands)</i>		Company	Counterparty				2013	2012
Type	Objective	Notional Amount	Notional Amount	Effective Date	Maturity Date	Terms	Fair Value	Fair Value
Fixed rate payer interest rate swap	Hedge changes in interest rate	\$ 20,875	\$ 20,875	1/30/2004	2/1/2021	Receive 67% of USD-LIBOR-BBA, Pay Fixed 3.337%	\$ (2,177)	\$ (3,005)
Fixed rate receiver interest rate swap	Hedge changes in interest rate	2,420	2,420	1/30/2004	2/1/2013	Receive fixed 3.291%, Pay variable SIFMA	-	43
Fixed rate receiver interest rate swap	Hedge changes in interest rate	2,485	2,485	1/30/2004	2/1/2014	Receive fixed 3.401%, Pay variable SIFMA	47	122
Fixed rate receiver interest rate swap	Hedge changes in interest rate	265	265	1/30/2004	2/1/2013	Receive fixed 3.226%, Pay variable SIFMA	-	5
Fixed rate receiver interest rate swap	Hedge changes in interest rate	245	245	1/30/2004	2/1/2014	Receive fixed 3.350%, Pay variable SIFMA	5	12
							<u>\$ (2,125)</u>	<u>\$ (2,823)</u>

At June 30, 2013 and 2012, approximately \$2,125,000 and \$2,823,000, respectively, related to the fair value of interest rate swaps, is recorded in other liabilities in the accompanying consolidated basic statements of net position.

The fair values of interest rate swaps are estimated using the present value of expected discounted future cash flows based on the maturity date.

Credit Risk

The Company has sought to limit its counterparty risk by contracting only with highly rated entities. As of June 30, 2013, the credit ratings for the counterparty of all of the swap agreements is A/Baa2/A-.

Interest Rate Risk

The Company is not exposed to interest rate risk on its fixed rate payer interest rate swap which hedges the changes in interest rates on the variable rate positions. The fixed rate receiver interest rate swaps convert fixed rate positions to a variable rate basis and will mature on February 1, 2014.

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Basis Risk

The Company is exposed to basis risk on its fixed rate payer swap agreement because the variable rate payments received by the Company on the derivative instrument is based on a rate or index other than the interest rates the Company pays on its variable rate position.

Termination Risk

The interest rate swap agreements use the International Swap Dealers Association Master Agreement, which includes standard termination events provisions, such as failure to pay and bankruptcy.

Commitments

The Company's interest rate swap agreements require collateral to be posted if the fair value of the interest rate swap is negative and meets certain thresholds. The threshold amount depends on the Company's unenhanced credit rating as determined by Fitch Ratings. No collateral was required to be posted as of June 30, 2013 or 2012.

Swap Termination

A portion of fixed receiver interest rate swaps matured, as scheduled, on February 1, 2013.

8. Employee Benefit Plans

Defined Contribution Plan

SJMC has a defined contribution plan which allows participants to defer up to 6% of their salary, pursuant to Section 401(k) of the Internal Revenue Code and all limitations contained therein. During fiscal years 2013 and 2012, SJMC made contributions of 3% of the salary of all eligible employees and matched employee contributions up to a maximum of an additional 2.25% of their salary. Contributions to this plan by SJMC were approximately \$6,363,000 and \$6,234,000 for the years ended June 30, 2013 and 2012, respectively.

Defined Benefit Pension Plan

The Company participates in the Shands HealthCare Pension Plan (the "Plan") which is a defined benefit pension plan that covers eligible Company employees.

Contribution Requirements and Contributions Made

The annual required contribution ("ARC") for the current year was determined as part of the actuarial valuation using the projected unit credit actuarial cost method. The Plan's funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. All contributions to the Plan are made by the employer and are intended to fund both the actuarially determined costs, as well as the Plan's operating costs. The Company's practice is to make sufficient annual contributions in accordance with the actuarial funding requirements. Annual required contributions to the Plan for fiscal years 2013 and 2012 totaled approximately \$1,613,000 and \$1,859,000, respectively. The contributions represent approximately 194.10% and 152.28% of current covered payroll for fiscal years 2013 and 2012, respectively. Total pension expense for the years ended June 30, 2013 and 2012 totaled approximately \$3,127,000 and \$2,952,000, respectively. As of June 30, 2013 and 2012, the Company has a pension asset of approximately \$15,861,000 and \$15,672,000, respectively. Pension expense is allocated to the Company based on valuation of payroll.

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Information regarding payroll and participant data used in the calculation of the current-year actuarial information is as follows:

	2013	2012
Covered payroll for the calculation of the actuarial information	\$ 830,903	\$ 1,220,733
Participant data as of July 1, 2012 (date of most recent valuation)		
Active	16	
Retired	232	
Terminated vested	505	
	<u>753</u>	

The more significant actuarial assumptions utilized in the most recent actuarial valuation (April 1, 2013) for computing the annual required contributions for the Plan are as follows:

Assumed rate of return on investments	7.25% per year (net of expenses)
Mortality basis	2013 PPA separate static annuitant and nonannuitant mortality tables
Amortization method	Level dollar closed
Remaining amortization period	8 years
Asset valuation method	Market value smoothed over 5 years
Termination	Graduated rates from 20 to 50 are as follows:

Table of Select Withdrawal Rates (Cash Balance Plan Benefits)
Withdrawal (Based on Years of Service)

Age	<2	2-2.99	3 or more
20	38.5%	21.1%	21.0%
25	35.0%	20.0%	18.5%
30	31.8%	18.6%	17.0%
35	29.3%	17.1%	15.5%
40	27.4%	15.3%	14.0%
45	25.7%	13.8%	12.0%
50	24.2%	12.3%	10.0%

Table of Select and Ultimate Withdrawal Rates (Traditional Plan Benefits)

Age	Percentage
20	16.7%
25	16.7%
30	13.3%
35	6.4%
40	5.9%
45	4.3%
50	3.6%

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Table of Salary Increases

Age	Percentage
20	3.65%
25	3.95%
30	3.65%
35	3.45%
40	3.25%
45	3.15%
50+	3.05%

Retirement Rates

Attained Age	Cash Balance Benefits	Traditional Benefits
50	8.5%	1.5%
51	10.0%	1.7%
52	10.1%	1.9%
53	10.2%	2.0%
54	10.3%	2.0%
55	10.4%	3.5%
56	10.5%	3.5%
57	10.6%	3.5%
58	10.7%	3.5%
59	10.8%	5.0%
60	10.9%	5.0%
61	11.0%	20.0%
62	12.0%	35.0%
63	14.0%	25.0%
64	16.0%	25.0%
65	17.0%	35.0%
66	18.0%	30.0%
67	19.0%	50.0%
68	20.0%	50.0%
69	20.0%	50.0%
70+	100.0%	100.0%

Funding Status and Progress

The Company's actuarial accrued liability ("AAL") and the actuarial value of Plan net assets for the current year are based upon the April 1, 2013 actuarial valuation. The schedules of Plan funding progress, following the notes to the consolidated basic financial statements, present multiyear trend information about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the AAL for benefits.

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The funded status of the Plan is summarized as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	AAL (Projected Unit Credit) (b)	Unfunded AAL ("UAAL") (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
April 1, 2013	\$ 65,662,661	\$ 72,505,410	\$ 6,842,749	90.56%	\$ 830,903	823.53%
April 1, 2012	65,212,450	71,756,738	6,544,288	90.88%	1,220,733	536.09%

The present value of accumulated plan benefits is computed to measure the funds required as of the valuation date to provide in full the benefits earned to date by all Plan participants. As of April 1, 2013 and 2012, the present values of accumulated Plan benefits were approximately \$72,505,000 and \$71,756,000, respectively.

Trend Information

This information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. The trend information for each of the last three fiscal years is as follows:

	April 1, 2013	April 1, 2012	April, 2011
Net assets available for benefits as a percentage of the AAL	90.56%	90.88%	88.40%
Unfunded actuarial accrued liability as a percentage of covered payroll	823.53%	536.09%	628.30%
Annual required contributions as a percentage of covered payroll	194.10%	152.28%	250.37%

Showing unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation for analysis purposes. For the three fiscal years presented, contributions to the Plan were made in accordance with actuarially determined requirements.

A summary of annual pension cost, contribution information, and the change in the net pension obligation for the last three fiscal years is as follows:

	2013	2012	2011
Annual required contribution	\$ 1,612,780	\$ 1,858,876	\$ 3,254,121
Interest on net pension obligation	(1,136,210)	(856,826)	(158,897)
Adjustment to annual required contribution	2,650,014	1,950,446	353,403
Annual pension cost	3,126,584	2,952,496	3,448,627
Contributions made with interest	(3,316,118)	(7,200,000)	(12,822,691)
Increase in net pension asset	(189,534)	(4,247,504)	(9,374,064)
Net pension asset			
Beginning of year	(15,671,857)	(11,424,353)	(2,050,289)
End of year	\$ (15,861,391)	\$ (15,671,857)	\$ (11,424,353)
Percentage of annual pension cost contributed	106.1%	243.9%	371.8%

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The net pension asset of approximately \$15,861,000 and \$15,672,000 is included within other assets in the consolidated basic statements of net position at June 30, 2013 and 2012, respectively.

A summary of Plan assets as of June 30, 2013 and 2012 and of the changes in Plan assets for fiscal years 2013 and 2012 is as follows:

<i>(in thousands of dollars)</i>	2013	2012
Statements of Plan Net Assets		
Cash and short-term investments	\$ 504	\$ 482
Investments at fair value		
Domestic equity funds and securities	19,713	19,074
International equity funds and securities	18,649	18,047
Fixed income funds	18,813	15,459
High yield fund	5,504	5,101
Private equity	2,897	3,063
Total investments	<u>65,576</u>	<u>60,744</u>
Net assets held in trust for pension benefits	<u>\$ 66,080</u>	<u>\$ 61,226</u>

<i>(in thousands of dollars)</i>	2013	2012
Statements of Changes in Plan Net Assets		
Beginning investment value of account	\$ 61,226	\$ 60,685
Receipts		
Employer contributions	3,316	7,200
Realized and unrealized gains (losses), net	6,585	(1,509)
Interest and dividends	1,390	950
Total receipts	<u>11,291</u>	<u>6,641</u>
Disbursements		
Benefit payments	5,986	5,716
Investment management and administrative fees	451	384
Total disbursements	<u>6,437</u>	<u>6,100</u>
Ending investment value of account	<u>\$ 66,080</u>	<u>\$ 61,226</u>

9. Other Postemployment Benefits

SJMC sponsors the Shands Jacksonville Health Plan (the "Health Plan"). In addition to providing pension benefits, the Company provides certain health care benefits for 35 retired employees.

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The GASB requires state and local governmental employers to account for and report the annual cost of other postemployment benefits ("OPEB") and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they become due. The GASB's provisions may be applied prospectively and do not require governments to fund their OPEB plans. The actuarially determined cost for providing benefits to retirees and current employees during fiscal years 2013 and 2012 was approximately \$619,000 and \$570,000, respectively. SJMC made approximately \$974,000 and \$151,000 of actual payments (contributions) during fiscal years 2013 and 2012, respectively.

Funding Policy

The GASB does not require funding of the OPEB expense. The ARC is based on projected pay-as-you-go financing requirements, with an additional amount required to be recognized and accumulated as the net OPEB obligation. For fiscal years 2013 and 2012, SJMC contributed approximately \$974,000 and \$151,000, respectively, to the Health Plan, which is net of retiree contributions. Retiree contributions for fiscal years 2013 and 2012 were approximately \$96,000 and \$94,000, respectively, according to the following table:

Average annual retiree contributions (Pre and post Medicare)	2013		2012	
	Retiree	Spouse/ Family	Retiree	Spouse/ Family
Preferred Plan	\$ 1,297	\$ 1,297	\$ 1,297	\$ 1,297
Post 65 BMM	230	230	230	230
Dental/Vision	253	253	253	253

Annual

OPEB Cost and Net OPEB Obligation – SJMC's annual OPEB cost is calculated based on its ARC, an amount actuarially determined in accordance with the GASB parameters. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over an 8 year period. The components of SJMC's annual OPEB cost for the year, the amount actually contributed to the Health Plan, and changes in SJMC's net OPEB obligation as of June 30, 2013 and 2012 are as follows:

	2013	2012
Annual required contribution	\$ 730,390	\$ 635,400
Interest on net OPEB obligation	44,726	29,540
Adjustment to annual required contribution	(156,409)	(95,251)
Annual OPEB cost	618,707	569,689
Contributions made	(974,052)	(151,445)
(Decrease) increase in net OPEB obligations	(355,345)	418,244
Net OPEB obligation		
Beginning of year	1,040,140	621,896
End of year	\$ 684,795	\$ 1,040,140

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Notes to Consolidated Basic Financial Statements
June 30, 2013 and 2012

SJMC's annual OPEB cost, the percentage of annual OPEB cost contributed to the Health Plan, and the net OPEB obligation for the last three fiscal years was as follows:

Fiscal Year Ended	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2013	\$ 618,707	157.4%	\$ 684,795
June 30, 2012	569,689	26.6%	1,040,140
June 30, 2011	583,038	152.5%	621,896

Funded Status and Funding Progress

As discussed above, the GASB does not require, and SJMC has not funded, the AAL. As of April 1, 2013 and 2012, the unfunded actuarial accrued liabilities ("UAAL") for benefits were approximately \$2,910,000 and \$2,927,000, respectively.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the consolidated basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the April 1, 2013 and 2012 actuarial valuations, the projected unit credit method was used. The actuarial assumptions included 4.36% and 4.30% discount rates, respectively, representing an estimate of the discount rate for the unfunded plan at April 1, 2013 and 2012. The UAAL is being amortized as a level dollar base for a closed 8 year period.

The significant actuarial assumptions utilized in the most recent actuarial analysis are as follows:

Discount rate	4.36% per year
Retiree contribution increases	Retiree contributions are assumed to increase at 5% each year until the point at which the employer cost cap is reached.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Notes to Consolidated Basic Financial Statements
June 30, 2013 and 2012

Health care cost trend rates The trend rates of incurred claims represent the rate of increase in employer claims payments:

Medical Annual Rates of Increase	
Initial Trend Rate	7.40%
Ultimate Trend Rate	4.50%
Year that the rate reaches the ultimate trend rate	2028

10. Commitments and Contingencies

Leases

SJMC entered into an amended lease agreement with the City as of October 1, 1987, further amended as of October 1, 1999, with respect to the former UMC facilities to provide for a lease term expiring in 2067 with an additional 30-year renewal option. The agreement provides for annual rentals of \$1 for the lease term. The leased assets are returned to the possession of the City at the termination of the lease. SJMC is responsible for the management, operation, maintenance, and repair of the facilities.

The following is a schedule, by year, of future minimum lease payments under noncancelable operating leases as of June 30, 2013:

(in thousands of dollars)

Years Ending	
2014	\$ 7,547
2015	5,651
2016	3,602
2017	2,308
2018	2,308
Thereafter	8,971
Total minimum lease payments	<u>\$ 30,387</u>

Rent expense related to operating leases for the years ended June 30, 2013 and 2012 was approximately \$9,427,000 and \$9,710,000, respectively.

Total gross assets under capital leases included in capital assets were approximately \$11,613,000 and \$11,193,000 at June 30, 2013 and 2012, respectively. Accumulated amortization on capital leases at June 30, 2013 and 2012 was approximately \$3,245,000 and \$2,790,000, respectively.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Notes to Consolidated Basic Financial Statements
June 30, 2013 and 2012

Future lease payments are as follows:

(in thousands of dollars)

Years Ending	
2014	\$ 2,444
2015	2,405
2016	2,302
2017	1,736
2018	<u>87</u>
Total minimum lease payments	8,974
Less: Amount representing interest	<u>(493)</u>
Present value of net minimum lease payments	<u>\$ 8,481</u>

Construction and Other Commitments

The Company has contracts for the construction and remodeling of facilities and for the purchase and maintenance of computer application software for its core operation systems. As of June 30, 2013 and 2012, the remaining commitment relating to these contracts was approximately \$5,035,000 and \$4,114,000, respectively.

Professional Liability

SJMC participates with other health care providers in the University of Florida J. Hillis Miller Health Center/Jacksonville Self-Insurance Program ("UFJSIP"). UFJSIP is an operating unit of the Board of Governors of the State of Florida ("FBOG"). UFJSIP provides occurrence-based coverage to the Company. Insurance in excess of the coverage provided by UFJSIP is provided by the University of Florida Healthcare Education Insurance Company ("UFHEIC"). UFHEIC is wholly-owned by FBOG. UFHEIC provides coverage to the Company on a claims reported basis. UFHEIC obtains reinsurance for a substantial portion of the insurance coverage that it provides to the participants in its insurance program. The policies between both UFJSIP and UFHEIC and SJMC are not retrospectively rated. The costs incurred by the Company related to these policies are expensed in the period that coverage is provided.

SJMC could be subject to malpractice claims in excess of insurance coverage through UFJSIP or UFHEIC; however, the estimated potential loss, if any, cannot be estimated. Management of the Company is not aware of any potential uninsured losses that could materially affect the financial position of the Company.

Effective July 1, 2011, the Company was granted sovereign immunity under the provision of Chapter 2011-114, Laws of Florida. As such, recovery in tort actions arising subsequent to June 30, 2011 will be limited to \$100,000 for any one person for one incident and all recovery related to one incident is limited to a total of \$200,000. Effective October 1, 2011, the limits increased to \$200,000 for any one person for one incident and \$300,000 in total for one incident.

Self-Insurance

The Company has a self-insurance plan for health and medical coverage for the employees of the Company. Amounts contributed by the Company and its employees to the plan are determined by the level of benefits coverage selected by each employee. Expenses related to the self-insured health and medical plan for the years ended June 30, 2013 and 2012 were approximately \$23,422,000 and \$32,623,000, respectively.

Shands Jacksonville HealthCare, Inc. and Subsidiaries

Notes to Consolidated Basic Financial Statements

June 30, 2013 and 2012

SJMC is self-insured for workers' compensation up to \$500,000 per occurrence, and has purchased excess coverage from commercial carriers up to the amount allowed by Florida Statutes. Total expenses for the years ended June 30, 2013 and 2012 were approximately \$690,000 and \$729,000, respectively.

Litigation

The Company is involved in litigation arising in the normal course of business. After consultation with legal counsel, management believes that these matters will be resolved without material adverse effect on the Company's future consolidated basic financial position or results of operations.

11. Transactions with Related Parties

As of June 30, 2013 and 2012, SJMC and University of Florida Jacksonville Physicians, Inc. ("UFJP") were contingently liable as joint and several co-guarantors for the payment of 100% of both the principal and interest on \$8,500,000 of Industrial Revenue Bonds related to the indebtedness of the Faculty Clinic, Inc. The guarantees were issued in connection with the Industrial Revenue Bonds, which were used to build the facility in which SJMC and UFJP are currently tenants. The bonds were issued on January 11, 1989, bearing variable interest rates and mature on July 1, 2019. At June 30, 2013 and 2012, the outstanding amount of the Industrial Revenue Bonds is \$4,200,000 and \$4,600,000, respectively. The bonds are collateralized by an irrevocable letter of credit with a bank which expires in August 2015.

Shands, a related party controlled by UF, entered into a Support Services Agreement to support, as needed, the management team of SJMC in the administrative functions of the hospital through the provision of services and personnel. Expenses related to these services were approximately \$4,454,000 and \$5,712,000 for the years ended June 30, 2013 and 2012, respectively.

SJMC receives contracted services at cost from UF for support of the clinical and research activities of the College of Medicine, maintenance, utilities, telephone communication and various other services. Expenses related to these services were approximately \$22,301,000 and \$27,437,000 for the years ended June 30, 2013 and 2012, respectively. At June 30, 2013 and 2012, payables related to this arrangement amounted to approximately \$777,000 and \$711,000, respectively, and are included in accounts payable and accrued expenses in the accompanying consolidated basic statements of net position.

At June 30, 2013 and 2012, the Company has a note payable of approximately \$39,916,000 and \$40,267,000, respectively, due to Shands. The original amount of the note was approximately \$42,276,000 to be paid in quarterly installments of \$804,620 including interest of 4.5% and matures on October 1, 2030. The current portion of the note payable of approximately \$2,575,000 and \$1,430,000 is included within long-term debt, current portion, and the long-term portion of the note payable of approximately \$37,341,000 and \$38,837,000 is included within long-term debt, noncurrent portion, at June 30, 2013 and 2012, respectively, in the accompanying consolidated basic statements of net position.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Notes to Consolidated Basic Financial Statements
June 30, 2013 and 2012

12. Concentrations of Credit Risk

SJMC grants credit without collateral to its patients, many of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors is as follows:

	2013	2012
Medicare	26%	23%
Medicaid	32%	32%
Other third-party payors	42%	45%
Patients	0%	0%
	<u>100%</u>	<u>100%</u>

Certain financial instruments potentially subject the Company to concentrations of credit risk. These financial instruments consist primarily of cash and cash equivalents, investments and patient accounts receivable. Concentrations of credit risk with respect to patient accounts receivable are limited to Medicare, Medicaid and various commercial payors. The Company places its cash and cash equivalents and investments with what management believes to be high-quality financial institutions and thus limits its credit exposure. The Company has deposits in excess of the federal insured amount of \$250,000. Management does not anticipate nonperformance risk by the financial institutions.

13. Subsequent Events

The Company has assessed the impact of subsequent events through September 30, 2013, the date the audited consolidated basic financial statements were issued, and has concluded that there is no such events, other than the payment of the previously accrued settlement described below, that require adjustment to the consolidated basic financial statements.

In July 2013, the Company paid approximately \$6,809,000 to resolve allegations made under the False Claims Act that billing practices at the Company resulted in overpayments by Medicare and Medicaid covering fiscal years 2003 through 2008. The settlement resulted from a whistleblower lawsuit filed in the U.S. District Court – Middle District of Florida – Jacksonville Division on April 30, 2008, which had been under court seal. The whistleblower was an independent consultant hired by the Company in 2006 and 2007 to conduct a routine audit of its billing practices. The audit showed inconsistent billing practices. In some instances, the Company billed Medicare and Medicaid for short overnight inpatient admissions rather than for outpatient or observation services. The Company's officials fully cooperated with the state and federal investigation and negotiated the settlement agreement. While there has been no admission of liability, the Company paid approximately \$6,592,000 to the Federal Government under the Medicare program and approximately \$217,000 to the State of Florida under its Medicaid program.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Schedule of Plan Funding Progress (Unaudited)
July 1, 2008 Through March 31, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a) / (c)
July 1, 2008	\$ 58,021,779	\$ 63,353,295	\$ 5,331,516	91.6%	\$ 2,180,660	244.5%
July 1, 2009	51,905,053	65,734,526	13,829,473	79.0%	1,809,586	764.2%
July 1, 2010	51,816,038	69,248,158	17,432,120	74.8%	1,809,586	963.3%
April 1, 2011	62,202,826	70,369,005	8,166,179	88.4%	1,299,716	628.3%
April 1, 2012	65,212,450	71,756,738	6,544,288	90.9%	1,220,733	536.1%
April 1, 2013	65,662,661	72,505,410	6,842,749	90.6%	830,903	823.5%

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Historical Summary of Actual and Required Pension Contributions (Unaudited)
July 1, 2007 Through June 30, 2013

(Fiscal) Plan Year	Employer Contributions	
	Annual Required Contribution	Percentage Contributed
July 1, 2007 to June 30, 2008	\$ 178,045	355.5%
July 1, 2008 to June 30, 2009	763,720	69.1%
July 1, 2009 to June 30, 2010	1,469,518	174.0%
July 1, 2010 to June 30, 2011	3,254,141	394.0%
July 1, 2011 to June 30, 2012	1,858,876	387.3%
July 1, 2012 to June 30, 2013	1,612,780	205.6%

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Historical Summary of Actual and Required Other Postemployment Contributions
Under GASB Statement No. 45 (Unaudited)
July 1, 2010 Through June 30, 2013

(Fiscal) Plan Year	Employer Contributions	
	Annual Required Contribution	Percentage Contributed
July 1, 2010 to June 30, 2011	\$ 679,326	130.8%
July 1, 2011 to June 30, 2012	635,400	23.8%
July 1, 2012 to June 30, 2013	730,390	133.4%

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidating Basic Statement of Net Position
June 30, 2013

(in thousands of dollars)

	Shands Jacksonville Medical Center Obligated Group*	Other	Eliminations	Consolidated Total
Assets				
Current assets				
Cash and cash equivalents	\$ 43,177	\$ 5,032	\$ -	\$ 48,209
Short-term investments	41,141	-	-	41,141
Patient accounts receivable, net	82,316	-	-	82,316
Due from city and state agencies	5,185	-	-	5,185
Inventories	10,336	-	-	10,336
Prepaid expenses and other current assets	40,421	8,347	(40,123)	8,645
Total current assets	<u>222,576</u>	<u>13,379</u>	<u>(40,123)</u>	<u>195,832</u>
Assets whose use is restricted	39,500	-	-	39,500
Capital assets, net	154,954	16,033	-	170,987
Other assets	22,839	4,033	-	26,872
Total assets	<u>\$ 439,869</u>	<u>\$ 33,445</u>	<u>\$ (40,123)</u>	<u>\$ 433,191</u>
Liabilities and Net Position				
Current liabilities				
Long-term debt, current portion	\$ 2,575	\$ -	\$ -	\$ 2,575
Capital lease obligations, current portion	2,225	-	-	2,225
Accounts payable and accrued expenses	60,856	33,232	(40,123)	53,965
Accrued salaries and leave payable	19,708	-	-	19,708
Estimated third-party payor settlements	30,796	-	-	30,796
Total current liabilities	<u>116,160</u>	<u>33,232</u>	<u>(40,123)</u>	<u>109,269</u>
Long-term liabilities				
Long-term debt, noncurrent portion	137,341	-	-	137,341
Capital lease obligations, noncurrent portion	6,256	-	-	6,256
Other liabilities	14,765	-	-	14,765
Total long-term liabilities	<u>158,362</u>	<u>-</u>	<u>-</u>	<u>158,362</u>
Total liabilities	<u>274,522</u>	<u>33,232</u>	<u>(40,123)</u>	<u>267,631</u>
Commitments and contingencies				
Net position				
Net investment in capital assets	46,472	16,033	-	62,505
Restricted				
Expendable	3,159	728	-	3,887
Unrestricted	115,716	(16,548)	-	99,168
Total net position	<u>165,347</u>	<u>213</u>	<u>-</u>	<u>165,560</u>
Total liabilities and net position	<u>\$ 439,869</u>	<u>\$ 33,445</u>	<u>\$ (40,123)</u>	<u>\$ 433,191</u>

* Per the Master Trust Indenture dated June 1, 2013, the Obligated Group is comprised of Shands Jacksonville HealthCare, Inc., Shands Jacksonville Medical Center, Inc. and Shands Jacksonville Properties, Inc.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidating Basic Statement of Net Position
June 30, 2012

(in thousands of dollars)

	Shands Jacksonville Medical Center Obligated Group*	Other	Eliminations	Consolidated Total
Assets				
Current assets				
Cash and cash equivalents	\$ 19,912	\$ 10,726	\$ -	\$ 30,638
Short-term investments	77,219	-	-	77,219
Patient accounts receivable, net	63,486	-	-	63,486
Due from city and state agencies	6,395	-	-	6,395
Inventories	9,016	-	-	9,016
Prepaid expenses and other current assets	4,112	2,093	(1,686)	4,519
Assets whose use is restricted, current portion	3,568	-	-	3,568
Total current assets	<u>183,708</u>	<u>12,819</u>	<u>(1,686)</u>	<u>194,841</u>
Assets whose use is restricted, less current portion	19,500	-	-	19,500
Capital assets, net	170,251	9,175	-	179,426
Other assets	22,619	855	-	23,474
Total assets	<u>\$ 396,078</u>	<u>\$ 22,849</u>	<u>\$ (1,686)</u>	<u>\$ 417,241</u>
Liabilities and Net Assets				
Current liabilities				
Long-term debt, current portion	\$ 6,845	\$ 4,740	\$ -	\$ 11,585
Capital lease obligations, current portion	1,873	-	-	1,873
Accounts payable and accrued expenses	51,137	7	(1,686)	49,458
Accrued salaries and leave payable	23,269	-	-	23,269
Estimated third-party payor settlements	22,510	-	-	22,510
Total current liabilities	<u>105,634</u>	<u>4,747</u>	<u>(1,686)</u>	<u>108,695</u>
Long-term liabilities				
Long-term debt, noncurrent portion	98,079	15,062	-	113,141
Capital lease obligations, noncurrent portion	7,064	-	-	7,064
Other liabilities	17,001	-	-	17,001
Total long-term liabilities	<u>122,144</u>	<u>15,062</u>	<u>-</u>	<u>137,206</u>
Total liabilities	<u>227,778</u>	<u>19,809</u>	<u>(1,686)</u>	<u>245,901</u>
Commitments and contingencies				
Net assets				
Net investment in capital assets	96,997	(10,558)	-	86,439
Restricted				
Expendable	3,643	200	-	3,843
Unrestricted	67,660	13,398	-	81,058
Total net assets	<u>168,300</u>	<u>3,040</u>	<u>-</u>	<u>171,340</u>
Total liabilities and net assets	<u>\$ 396,078</u>	<u>\$ 22,849</u>	<u>\$ (1,686)</u>	<u>\$ 417,241</u>

* The Obligated Group is comprised of Shands Jacksonville Medical Center, Inc., Shands Jacksonville Foundation, Inc. Shands Jacksonville Community Services, Inc., Shands Jacksonville Affiliates, Inc. and Southern Hospital Systems, Inc. at June 30, 2012.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidating Basic Statement of Revenues, Expenses, and Changes in Net
Position
Year Ended June 30, 2013

(in thousands of dollars)

	Shands Jacksonville Medical Center Obligated Group*	Other	Eliminations	Consolidated Total
Operating revenues				
Net patient service revenue, net of provision for bad debts of \$86,208	\$ 487,436	\$ -	\$ -	\$ 487,436
Other operating revenue	32,473	3,265	(298)	35,440
Total operating revenues	<u>519,909</u>	<u>3,265</u>	<u>(298)</u>	<u>522,876</u>
Operating expenses				
Salaries and benefits	239,905	419	-	240,324
Supplies and services	237,804	1,920	(298)	239,426
Depreciation and amortization	23,485	103	-	23,588
Total operating expenses	<u>501,194</u>	<u>2,442</u>	<u>(298)</u>	<u>503,338</u>
Operating income	<u>18,715</u>	<u>823</u>	<u>-</u>	<u>19,538</u>
Nonoperating revenues (expenses)				
Interest	(3,787)	-	-	(3,787)
Other nonoperating gains	699	-	-	699
Net investment gain (loss), including change in fair value	(8)	2	-	(6)
Gain on disposal of capital assets, net	33	-	-	33
Total nonoperating revenues (expenses), net	<u>(3,063)</u>	<u>2</u>	<u>-</u>	<u>(3,061)</u>
Excess of revenues over expenses before transfers and capital contributions	15,652	825	-	16,477
Transfers and expenditures in support of the University of Florida and its medical programs	(22,301)	-	-	(22,301)
Capital contributions, net	44	-	-	44
(Decrease) increase in net position	<u>(6,605)</u>	<u>825</u>	<u>-</u>	<u>(5,780)</u>
Net position				
Beginning of year	171,952	(612)	-	171,340
End of year	<u>\$ 165,347</u>	<u>\$ 213</u>	<u>\$ -</u>	<u>\$ 165,560</u>

* Per the Master Trust Indenture dated June 1, 2013, the Obligated Group is comprised of Shands Jacksonville HealthCare, Inc., Shands Jacksonville Medical Center, Inc. and Shands Jacksonville Properties, Inc.

Shands Jacksonville HealthCare, Inc. and Subsidiaries
Consolidating Basic Statement of Revenues, Expenses, and Changes in Net
Position
Year Ended June 30, 2012

(in thousands of dollars)

	Shands Jacksonville Medical Center Obligated Group*	Other	Eliminations	Consolidated Total
Operating revenues				
Net patient service revenue, net of provision for bad debts of \$68,372	\$ 483,830	\$ -	\$ -	\$ 483,830
Other operating revenue	31,607	5,142	(5,303)	31,446
Total operating revenues	<u>515,437</u>	<u>5,142</u>	<u>(5,303)</u>	<u>515,276</u>
Operating expenses				
Salaries and benefits	254,300	-	-	254,300
Supplies and services	236,244	1,412	(5,303)	232,353
Depreciation and amortization	20,838	967	-	21,805
Total operating expenses	<u>511,382</u>	<u>2,379</u>	<u>(5,303)</u>	<u>508,458</u>
Operating income	<u>4,055</u>	<u>2,763</u>	<u>-</u>	<u>6,818</u>
Nonoperating revenues (expenses)				
Interest	(3,621)	-	-	(3,621)
Other nonoperating losses	(838)	(239)	-	(1,077)
Net investment gain, including change in fair value	2,489	1	-	2,490
Loss on disposal of capital assets, net	(59)	-	-	(59)
Total nonoperating revenues (expenses), net	<u>(2,029)</u>	<u>(238)</u>	<u>-</u>	<u>(2,267)</u>
Excess of revenues over expenses before transfers and capital contributions	2,026	2,525	-	4,551
Transfers and expenditures in support of the University of Florida and its medical programs	(27,437)	-	-	(27,437)
Capital contributions, net	837	-	-	837
(Decrease) increase in net position	<u>(24,574)</u>	<u>2,525</u>	<u>-</u>	<u>(22,049)</u>
Net position				
Beginning of year	192,874	515	-	193,389
End of year	<u>\$ 168,300</u>	<u>\$ 3,040</u>	<u>\$ -</u>	<u>\$ 171,340</u>

* The Obligated Group is comprised of Shands Jacksonville Medical Center, Inc., Shands Jacksonville Foundation, Inc., Shands Jacksonville Community Services, Inc., Shands Jacksonville Affiliates, Inc. and Southern Hospital Systems, Inc. as of June 30, 2012.